

**CITY OF ELKADER**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2011**

# TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets- Cash Basis	A 15-16
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 17-18
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 19
Notes to Financial Statements	20-30
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds	32
Notes to Required Supplementary Information- Budgetary Reporting	33
Other Supplementary Information	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1 35
Schedule of Indebtedness	2 36
Bond and Note Maturities	3 37-38
Schedule of Receipts by Source and Disbursements by Function-All Governmental Funds	4 39
Schedule of Expenditures of Federal Awards	5 40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Governmental Auditing Standards</u>	41-43
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	44-45
Schedule of Findings and Questioned Costs	46-50

CITY OF ELKADER  
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Garms	Mayor	Jan. 2012
Ken Seney	Mayor Pro tem	Jan. 2012
Rob Frieden	Council Member	Jan. 2012
Daryl Koehn	Council Member	Jan. 2014
Roger Buchholz	Council Member	Jan. 2014
Curtis Ruhser	Council Member	Jan. 2014
Jennifer Cowsert	City Administrator/Clerk	Indefinite
Marla Reimer	Assistant Administrator/ Deputy Clerk	Indefinite
John Gnagy	Attorney	Resigned Jan. 10, 2011
Steve McCorkindale	Attorney	Indefinite

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Elkader, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elkader's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Elkader as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2012 on our consideration of the City of Elkader's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report

is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

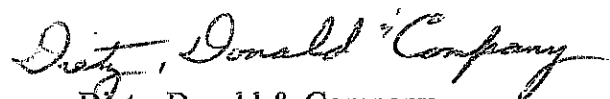
Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkader's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report the financial statements for the two years ended June 30, 2010 (which are not presented herein). We expressed unqualified opinions on the financial statements for the year ended June 30, 2010, which were prepared in conformity with an other basis of accounting. The financial statements for the year ended June 30, 2009, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008.

Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

March 28, 2012

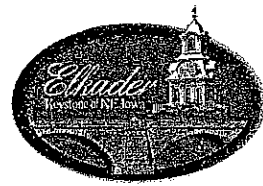
  
Dietz, Donald & Company  
FEIN 42-1172392

# City of Elkader

207 North Main Street - P.O. Box 427

Elkader, IA 52043

Phone: 563-245-2098 Fax: 563-245-1033



E-mail: [elkaderadmin@alpinecom.net](mailto:elkaderadmin@alpinecom.net)

[www.elkader-iowa.com/City\\_Hall.html](http://www.elkader-iowa.com/City_Hall.html)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elkader provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 11.7%, or approximately \$ 401,000, from fiscal 2010 to fiscal 2011. Property tax increased approximately \$ 47,000 and bond and note proceeds increased approximately \$ 1,108,000.
- Disbursements of the City's governmental activities increased 14.3% or approximately \$ 501,000 in fiscal 2011 from fiscal 2010. Debt service, community development and culture and recreation disbursements increased approximately \$ 927,000, \$ 417,000 and \$ 12,000, respectively
- The City's total cash basis net assets decreased 44.9%, or approximately \$ 360,000 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$ 143,000 and the assets of the business type activities decreased approximately \$ 217,000.

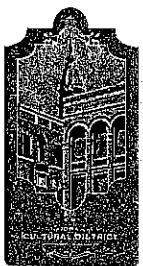
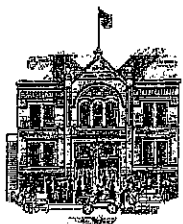
### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.



Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *The City's Reporting Entity Presentation*

This annual report includes all activities for which Elkader's City Council is fiscally responsible. These activities defined as the City's reporting entity are operated within a separate legal entity that is the primary government and another separate legal entity that is included as a component unit.

The primary government consists of one legal entity, the City of Elkader.

The component unit presentation consists of one legal entity, the Elkader Public Library Foundation.

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

1. Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.
3. Discretely Presented Component Unit consists of the Elkader Public Library Foundation, a legally separate organization that has the potential to provide specific benefits or impose specific financial burdens on the City.

### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds such as Urban Renewal Tax Increment and Local Option Sales Tax, [c] the Debt Service Fund, [d] the Capital Projects Funds and [e] the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.  
The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.  
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$ 383,000 to approximately \$ 241,000. The analysis that follows focuses

on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$ 352	383
Operating grants and contributions, and restricted interest	519	725
Capital grants and contributions, and restricted interest	588	1,050
General Receipts:		
Property tax	732	733
Local option sales tax	111	101
Franchise tax	35	33
Unrestricted interest on investments	3	8
Note and loan proceeds - net	1,413	305
Other general receipts	80	93
Total receipts	<u>3,833</u>	<u>3,431</u>
Disbursements:		
Public safety	460	996
Public works	415	564
Health and social services	1	3
Culture and recreation	343	330
Community and economic development	546	129
General government	156	153
Debt service	1,155	228
Capital projects	939	1,111
Total disbursements	<u>4,015</u>	<u>3,514</u>
Change in cash basis net assets before transfers	(182)	(83)
Transfers, net	<u>40</u>	<u>12</u>
Change in cash basis net assets	(142)	(71)
Cash basis net assets beginning of year	<u>383</u>	<u>454</u>
Cash basis net assets end of year	<u>\$ 241</u>	<u>383</u>

The City's total receipts for governmental activities increased 11.7% or approximately \$ 402,000. The total cost of programs and services increased approximately \$ 501,000, or 14.3%. Capital project spending decreased approximately \$ 172,000 due primarily to two projects beginning to wind down. Disbursements for debt service increased approximately \$ 927,000 as the City refinanced the 2004 TIF Refunding Bonds of \$ 860,000. Receipts in 2011 increased approximately \$ 402,000, due primarily to the issuance of \$ 1,325, 000 of Corporate purpose and TIF refunding bonds.

City property tax receipts decreased approximately \$ 1,000 in 2011. Property taxes are budgeted to increase approximately \$ 74,000 in 2012.

The cost of all governmental activities this year was approximately \$ 4.015 million compared to \$ 3.514 million last year. However, as shown in the Statement of Activities and Nets Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$ 2.556 million because some of the cost was paid by those directly benefited from the programs (\$ 352,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 1.107 million). Overall, in 2011, the City's governmental activities program receipts, including intergovernmental aid and fees for services, decreased from approximately \$ 2.158 million to approximately \$ 1.459 million, principally due to receiving less grant proceeds. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 877,000 in tax (some of which could only be used for certain programs) and with other receipts, such as note and loan proceeds.

Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)

	<u>Year Ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 391	389
Sewer	462	459
General receipts		
Capital grants	429	428
Unrestricted interest on investments	5	3
Note and loan proceeds	<u>1,011</u>	<u>3,030</u>
Total receipts	<u>2,298</u>	<u>4,309</u>

Disbursements:		
Water	397	449
Sewer	<u>2,078</u>	<u>3,686</u>
Total disbursements	<u>2,475</u>	<u>4,135</u>
Change in cash basis net assets before transfers	(177)	174
Transfers, net	<u>(40)</u>	<u>(12)</u>
Change in cash basis net assets	(217)	162
Cash basis net assets beginning of year	<u>418</u>	<u>256</u>
Cash basis net assets end of year	<u>\$ 201</u>	<u>418</u>

Total business type activities receipts for the fiscal year were approximately \$ 2.298 million compared to \$ 4.309 million last year. The significant decrease was due primarily to a decrease in state revolving loan proceeds of \$ 2.019 million from last year. Total disbursements decreased from approximately \$ 4.135 million to approximately \$ 2.475 million because construction work on the wastewater treatment plant was completed.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elkader completed the year, its governmental funds reported a combined fund balance of \$ 240,939, a decrease of \$ 142,501 from last year's total of \$ 383,440. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$ 46,799 from the prior year to \$ 142,547. This increase was due primarily to cuts in operating disbursements, as revenues were nearly unchanged from 2010.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for projects within the City's urban renewal districts. At the end of the fiscal year, the cash balance was -\$18,514, a decrease of \$ 63,450 from the previous year.
- The Special Revenue, Local Option Sales Tax Fund was established to account for the use of local option sales tax. At the end of the fiscal year, the cash balance was \$ 179,261, an increase of \$80,519. During the fiscal year ended June 30, 2011, \$ 46,904 was spent on community and economic development.
- The Special Revenue, Hazard Mitigation Grants Fund was established to account for the proceeds from grants and loans, which are to be used for the buy-out program established after the 2008 Turkey River flood. During the fiscal year ended June 30, 2011, \$ 242,858 was spent, leaving a deficit of \$ 24,310 at June 30, 2011.
- The Debt Service Fund cash balance increased \$ 12,246 to a balance of \$ 7,916. Debt

service disbursements were \$ 1,154,863, however, \$ 860,000 of 2004 TIF Refunding Bonds were refinanced during fiscal 2011.

- The Capital Projects Fund accounted for the EMS building project. During the year \$ 939,185 was spent on the project leaving a deficit balance of \$ 110,702 at June 30, 2011.
- The Permanent Cemetery Perpetual Care Fund had a cash balance of \$ 50,153 at June 30, 2011, a decrease of \$ 5,161. A total of \$ 19,098 was spent on cemetery improvement projects during the year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$ 38,152 to \$ 15,750 due primarily to making the first payment on the water revenue notes.
- The Sewer Fund cash balance decreased \$ 179,107 to \$ 185,363 due primarily to debt service requirements of \$ 370,223 being in excess of net operating receipts of \$ 226,805.

## BUDGETARY HIGHLIGHTS

The City's receipts were \$ 2,229,585 less than budgeted, primarily due to several capital projects not being as far along as originally anticipated. Therefore, intergovernmental receipts were \$ 2,291,109 less than budgeted.

Total disbursements were \$ 1,350,060 less than budgeted, due primarily to the aforementioned capital projects. However, the City exceeded the amounts budgeted in the culture and recreation, general government, debt service and business type activities functions.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$ 9,090,972 of long-term debt outstanding, compared to \$ 8,081,706 last year, as shown in the following.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2011	2010
General obligation notes	\$ 74	101
General obligation bonds	1,710	1,435
Revenue notes	6,890	6,207
Loan payable	56	66
Anticipation loans	361	273
Total	<u>\$ 9,091</u>	<u>8,082</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 2,028,258 is less than its constitutional debt limit of over \$ 3.00 million. However, the City has outstanding development agreements of \$ 117,968 which brings its constitutional debt to \$ 2,146,226, still less than the \$ 3.00 million debt limit.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Elkader's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees that will be charged for various City activities. The City incurred major flood damage in June, 2008. Although most infrastructure damage was paid by federal and state grants, the buyout of approximately 25 homes will negatively impact the City's tax base and water and sewer billings. Over the last 40 years, population has decreased about 20%. The City has completed construction on a mechanical wastewater treatment plant and an emergency services building. Although the City is reviewing all possible avenues of financing, certainly there will continue to be upward pressure on water and sewer rates.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are \$ 5.134 million, a decrease of 34.5% from the amended 2011 budget. Property taxes are budgeted to increase \$ 29,363. The tax levy rate increased 0.7%. Loan and grants are budgeted to decrease by \$ 2.885 million. Disbursements are budgeted to decrease about \$ 1.711 million as the EMS building was completed in 2011.

If these estimates are realized, the City's budgeted cash balance is expected to increase \$ 31,341 by the close of 2012.

## **CONTACTING THE CITY'S MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jennifer Cowser, City Administrator and City Clerk, 207 North Main Street, Elkader, Iowa 52043-0427.

## BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF ELKADER  
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS  
As of and for the Year Ended June 30, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Charges for Services	Primary Government Business Type Activities	Total	Component Unit Elkader Public Library Foundation
<b>Functions/Programs:</b>						
<b>Governmental activities:</b>						
Public safety	\$ 460,315	24,016	350,112	(86,187)	(86,187)	-
Public works	414,783	182,165	136,002	(96,616)	(96,616)	-
Health and social services	1,465	-	-	(1,465)	(1,465)	-
Culture and recreation	342,591	140,671	23,312	(178,608)	(178,608)	-
Community and economic development	545,956	-	8,186	(537,770)	(537,770)	-
General government	155,888	4,975	-	(150,893)	(150,893)	-
Debt service	1,154,863	-	1,675	(1,153,188)	(1,153,188)	-
Capital projects	939,185	-	-	(351,008)	(351,008)	-
Total governmental activities	4,015,006	351,827	519,287	(2,555,735)	(2,555,735)	-
<b>Business type activities:</b>						
Water	396,788	391,227	-	(5,481)	(5,481)	-
Sewer	2,077,934	461,697	-	(1,187,590)	(1,187,590)	-
Total business type activities	2,474,642	852,924	-	(1,193,071)	(1,193,071)	-
Total	6,489,668	1,204,751	519,287	(2,555,735)	(3,748,806)	-
Discretely Presented Component Unit:						
Elkader Public Library Foundation	-	-	30,007	-	-	30,007
<b>General Receipts and Transfers:</b>						
Property and other city taxes levied for:						
General purposes	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Tax increment financing	-	-	-	-	-	-
Local option sales tax	-	-	-	-	-	-
Franchise fee	-	-	-	-	-	-
Unrestricted interest on investments	-	-	-	-	-	-
Bond and note proceeds	-	-	-	-	-	-
Anticipation loan proceeds-net	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Sale of assets	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Total general receipts and transfers	-	-	-	-	-	-
Change in cash basis net assets	-	-	-	-	-	30,007
Cash basis net assets beginning of year	-	-	-	-	-	37,600
Cash basis net assets end of year	-	-	-	-	-	67,607

(continued)

CITY OF ELKADER  
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS  
As of and for the Year Ended June 30, 2011

	Primary Government			Discretely Presented
	Governmental	Business Type	Total	Component Unit
	Activities	Activities		Elkader Library Foundation
Cash Basis Net Assets:				
Restricted:				
Nonexpendable:				
Cemetery perpetual				
care	\$ 50,153	-	50,153	-
Expendable:				
Library	5,982	-	5,982	67,607
Debt service	7,916	-	7,916	-
Other purposes	194,978	-	194,978	-
Unrestricted	(18,090)	201,109	183,019	-
Total cash basis				
net assets	\$ 240,939	201,109	442,048	67,607

See notes to financial statements.

Exhibit B

CITY OF ELKADER  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2011

	Special Revenue						Permanent		
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Hazard Mitigation Grants	Debt Service	Capital Projects	Cemetery Perpetual Care	Monument	Total
Receipts:									
Property tax	\$ 333,174	-	-	-	103,783	-	-	156,499	593,456
Tex Increment financing	-	138,179	-	-	-	-	-	-	138,179
Other city tax	35,175	-	110,527	-	-	-	-	-	145,702
Licenses and permits	4,965	-	-	-	-	-	-	-	4,965
Use of money and property	10,936	867	-	-	808	-	997	447	14,025
Intergovernmental	75,078	8,186	-	309,659	-	543,200	11,150	136,002	1,083,315
Changes for service	290,213	-	-	-	-	-	-	-	290,213
Miscellaneous	49,222	-	20,229	-	-	56,947	1,720	14,506	142,664
Total receipts	798,733	147,232	130,766	309,659	104,591	600,147	13,937	307,454	2,412,519
Disbursements:									
Operating:									
Public safety	180,722	-	-	242,888	-	-	-	36,735	460,315
Public works	194,261	-	-	-	-	-	-	220,522	414,783
Health and social services	1,465	-	-	-	-	-	-	-	1,465
Culture and recreation	260,674	-	-	-	-	-	19,098	62,819	342,591
Community and economic development	-	499,052	46,904	-	-	-	-	-	545,956
General government	118,155	-	-	-	1,154,863	-	-	37,713	155,868
Debt service	-	-	-	-	-	-	-	-	1,154,863
Capital projects	-	-	-	-	999,185	-	-	-	999,185
Total disbursements	755,277	499,052	46,904	242,888	1,154,863	999,185	19,098	357,789	4,015,026
Excess (deficiency) of receipts over (under) disbursements	43,456	(351,820)	83,862	66,801	(1,050,272)	(399,038)	(5,161)	(50,335)	(1,602,507)
Other financing sources (uses):									
Bond proceeds	-	431,706	-	-	893,294	-	-	-	1,325,000
Anticipation loan proceeds	-	-	-	129,512	-	171,065	-	-	300,577
Anticipation loans released	-	-	-	(212,629)	-	-	-	-	(212,629)
Sale of capital assets	-	-	-	6,770	-	-	-	-	6,770
Operating transfers in	3,343	-	-	-	169,224	-	-	14,400	186,967
Operating transfers out	-	(143,336)	(3,343)	-	-	-	-	-	(146,679)
Total other financing sources (uses)	3,343	288,370	(3,343)	(76,347)	1,062,518	171,065	-	14,400	1,460,006
Net change in cash balances	46,799	(63,450)	80,519	(9,546)	12,246	(167,973)	(5,161)	(35,935)	(142,501)
Cash balances beginning of year, as restated	95,748	44,936	98,742	(14,764)	(4,330)	57,271	55,314	50,523	383,440
Cash balances, end of year	\$ 142,547	(18,514)	179,261	(24,310)	7,916	(110,702)	50,153	14,588	240,939

(continued)

Exhibit B  
(continued)

CITY OF ELKADER  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2011

	Special Revenue					Reimbursement		Total
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Hazard Mitigation Grants	Debt Service	Capital Projects	Cemetery Perpetual Care	Major
Cash Basis Fund Balances:								
Nonexpendable-Cemetery	\$ -	-	-	-	-	-	50,153	-
perpetual care	-	-	-	-	-	-	-	50,153
Restricted for:	-	-	-	-	7,916	-	-	7,916
Debt service	-	-	-	-	-	-	-	5,982
Library	-	-	179,761	-	-	-	-	179,761
Other purposes	-	-	-	-	-	-	-	194,978
Committed for:								
Opera house	22,848	-	-	-	-	-	-	22,848
Parks	11,948	-	-	-	-	-	-	11,948
Cemetery	3,427	-	-	-	-	-	-	3,427
Ambulance	73,327	-	-	-	-	-	-	73,327
Fire department	2,362	-	-	-	-	-	-	2,362
Unassigned	28,635	(18,514)	-	(24,310)	-	(110,702)	-	(132,002)
Total cash basis fund balances	\$ 142,547	(18,514)	179,261	(24,310)	7,916	(110,702)	50,153	240,939

See notes to financial statements.

CITY OF ELKADER  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 391,227	461,697	852,924
Operating disbursements:			
Business type activities	262,705	234,892	497,597
Excess of operating receipts over operating disbursements	128,522	226,805	355,327
Non-operating receipts (disbursements):			
Intergovernmental	-	428,647	428,647
Interest on investments	417	4,157	4,574
Miscellaneous	-	52	52
Revenue note proceeds	-	1,011,474	1,011,474
Debt service	(134,003)	(370,223)	(504,226)
Capital projects	-	(1,472,819)	(1,472,819)
Net non-operating receipts (disbursements)	(133,586)	(398,712)	(532,298)
Deficiency of receipts under disbursements	(5,064)	(171,907)	(176,971)
Operating transfers out	(33,088)	(7,200)	(40,288)
Net change in cash balances	(38,152)	(179,107)	(217,259)
Cash balances beginning of year	53,908	364,460	418,368
Cash balances end of year	\$ 15,756	185,353	201,109
Cash Basis Fund Balances:			
Unrestricted	\$ 15,756	185,353	201,109

See notes to financial statements.

# CITY OF ELKADER

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### (1) Summary of Significant Accounting Policies

The City of Elkader is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, the City of Elkader has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria.

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

<u>Component Unit</u>	<u>Brief Description/ Inclusion Criteria</u>
Elkader Public Library Foundation	Created March, 2010 to help promote, develop and finance the Elkader Public Library. The governing board consists of seven members, including the City Administrator, the Library Director and the President of the Library Board of Directors.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and Clayton County Economic Development Board.

### B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service. Activity between the primary government (the City) and the discretely presented component unit (the Elkader Public Library Foundation) are reported as if they are external transactions and are classified separately from internal activities within the primary government.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement cost not paid from other funds.

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Special Revenue, Local Option Sales Tax Fund is used to account for local option sales tax collections and to assure that they are disbursed in accordance with voter wishes.

The Special Revenue, Hazard Mitigation Grants Fund is used to account for the proceeds from grants and loans that fund the flood hazard mitigation (taxpayer buyout) program.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of principal and interest on the City's long-term debt.

The Capital Projects Fund is used to account for contributions and specific receipts and transfers from other City funds and disbursements for the Emergency Services Building project.

The Permanent, Cemetery Perpetual Care Fund is used to account for County funds and lot sales and cemetery improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

*Nonspendable* - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

*Restricted* - Amount restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Committed* - Amounts which can be used for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end.

*Unassigned* - All amounts not included in other spendable classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government, debt service and business type activities functions.

**(2) Cash**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Bond and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bond and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 246,981	48,522	133,000	72,990	379,981	121,512
2013	236,319	43,241	138,000	69,000	374,319	112,241
2014	234,470	38,474	142,000	64,860	376,470	103,334
2015	214,337	33,448	146,000	60,600	360,337	94,048
2016	219,336	29,028	150,000	56,220	369,336	85,248
2017-21	593,674	76,742	824,000	210,630	1,417,674	287,372
2022-26	95,000	3,922	825,000	79,410	920,000	83,332
2027	-	-	75,000	2,250	75,000	2,250
Total	\$ 1,840,117	273,377	2,433,000	615,960	4,273,117	889,337

#### Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the \$ 1,459,000 of water revenue notes issued on March 8, 2005 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes are payable solely from water customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 129,260 and \$ 127,522, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$ 974,000 of sewer revenue notes issued on November 2, 2006 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 77,630 and \$ 226,805, respectively.

On December 3, 2008, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$ 5,500,000 of sewer revenue notes with interest at 3% per annum. The bonds were issued pursuant to the provisions of Section 384.24A and 384.83 of the Code of Iowa for the purpose of constructing a mechanical wastewater treatment plant. Upon request, the Trustee will reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn \$ 4,655,715 (including a \$ 55,000 initiation fee) of the \$ 5,500,000 authorized and made principal payments of \$ 199,000 and interest payments of \$ 129,887. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$ 844,285 held in trust, which the City will request as the project progresses. A formal repayment schedule has not been adopted for the debt.

The City has pledged future sewer customer receipts, net of specified operating

disbursements, to repay the \$ 5,500,000 of sewer revenue notes, issued on December 3, 2008 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding balance. The notes are payable from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 276,291 and \$ 226,805, respectively.

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the enterprise activity and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue notes.

#### **(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; PO Box 9117; Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$ 27,334, \$ 26,285 and \$ 25,601, respectively, equal to the required contributions for each year.

#### **(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 6 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 265 for single coverage and \$ 978 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed \$ 67,035 to the plan.

#### **(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and personal hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and personal hour payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 20,000
Sick leave	12,000
Personal days	3,000
Comp time	<u>1,000</u>
Total	<u>\$ 36,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

#### **(7) Anticipation Loan**

Anticipation loans are loans made to the City by a local bank and the Iowa Finance Authority pending finalization of long-term financing.

The City borrowed \$ 947,785 at 3.25% interest per annum, from a local bank for its flood hazard mitigation program. As of June 30, 2011, \$ 930,871 of these advances had been repaid, leaving an unpaid balance at June 30, 2011 of \$ 16,914.

The City borrowed \$ 172,999 interest free from the Iowa Finance Authority for a lift station project and a water system survey. At June 30, 2011, the entire balance of \$ 172,000 was still outstanding.

The City borrowed \$ 171,065 at 3.25% interest per annum from a local bank for construction of a new emergency services building. At June 30, 2011, the entire balance of \$ 171,065 was still outstanding.

### **(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 3,343
Special Revenue: Employee Benefits	Enterprise: Water	7,200
	Sewer	<u>7,200</u>
		<u>14,400</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment	143,336
	Enterprise: Water	<u>25,888</u>
		<u>169,224</u>
Total		<u>\$ 186,967</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

### **(9) Related Party Transactions**

The City transferred \$ 26,515 to the Elkader Public Library Foundation, the City's discretely presented component unit during the fiscal year ended June 30, 2011.

### **(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage during the past three fiscal year.

### **(11) Deficit Balance**

The Special Revenue, Urban Renewal Tax Increment; the Special Revenue, Hazard

Mitigation Grants; the Special Revenue, Road Use Tax; and the Capital Projects Funds had deficit balances of \$ 18,514, \$ 24,310, \$ 7,111 and \$ 110,702, respectively, at June 30, 2011. These deficits will be eliminated with subsequent receipts.

## **(12) Development Agreements**

The City has entered into four development agreements to assist various urban renewal projects.

With the first agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for certain public improvements related to the development of a manufacturing facility in the City industrial park made by the developer. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning July 1, 2005. The total to be paid by the City under this agreement is not to exceed \$ 500,000. During the year ended June 30, 2011, no rebates were made under this agreement. The maximum remaining balance at June 30, 2011 was \$ 117,968

With the second agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for construction of duplex apartments by the developer on land located in the City. The incremental tax received by the City from the developer will be rebated for a period of three years beginning December 1, 2012 and continuing through and including June 1, 2015.

With the third agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for the construction of an industrial facility by the developer within the Elkader Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa will be rebated for a period of ten years beginning December 1, 2010, and continuing through and including June 1, 2020, or until such earlier date upon which payments equal to \$ 750,000 have been made. The payments shall not constitute a general obligation of the City and shall be subject to annual appropriation of the City Council.

With the fourth agreement, the City has agreed to rebate the incremental tax paid by the developer in exchange for the construction of an assisted living facility by the developer within the Elkader Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa until such date upon which payments equal to \$ 300,000 have been made. The payments shall not constitute a general obligation of the City and shall be subject to annual appropriation of the City Council.

## **(13) Commitments and Contingencies**

Construction Contracts - The City has entered into two construction contracts totaling \$ 915,177 for various sewer improvement projects. As of June 30, 2011, \$ 162,973

had been disbursed under these contracts. The balance of \$ 752,204 remaining at June 30, 2011 will be paid as work on the projects continues.

Guaranty Agreement - The City is a co-guarantor with several Elkader businesses on a term loan from the United States Department of Agriculture, Rural Development to a nonprofit organization that provides day care services to the community. The loan is secured by a first mortgage on the real estate owned by the nonprofit organization. This guaranty would require the City to make the required loan payments. As of June 30, 2011, the guaranteed loan balance was approximately \$ 191,000 and the nonprofit organization was current with the required payments.

#### (14) Subsequent Events

After June 30, 2011, the City entered into a construction contract totaling \$ 981,917 for storm sewer improvements. In addition, the City entered into two contracts totaling \$ 109,980 for demolition of buildings in the hazard mitigation area.

#### (15) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of the fund type reclassification is as follows:

	Special Revenue Hazard Mitigation Grants	Capital Projects
Balances June 30, 2010, as previously reported	\$ 0	42,507
Change in fund type classification per implementation of GASB Statement No. 54	<u>(14,764)</u>	<u>14,764</u>
Balances July 1, 2010, as restated	<u>\$ (14,764)</u>	<u>57,271</u>

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELKADER  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2011

	Governmental Funds		Proprietary Funds		Total		Budgeted Amounts		Final to Total Variance
	Actual		Actual				Original	Final	
<b>Receipts:</b>									
Property tax	\$ 593,456		-		593,456		572,434	572,434	21,022
Tax increment financing	138,179		-		138,179		144,103	144,103	(5,924)
Other city tax	145,702		-		145,702		112,532	112,532	33,170
Licenses and permits	4,965		-		4,965		49,625	49,625	(44,660)
Use of money and property	14,025		4,574		18,599		60,950	60,950	(42,351)
Intergovernmental	1,083,315		428,647		1,511,962		3,803,071	3,803,071	(2,291,109)
Charges for service	290,213		852,924		1,143,137		1,110,165	1,116,965	26,172
Special assessments	-		-		-		500	500	(500)
Miscellaneous	142,664		52		142,716		68,121	68,121	74,595
<b>Total receipts</b>	<b>2,412,519</b>		<b>1,286,197</b>		<b>3,698,716</b>		<b>5,921,501</b>	<b>5,928,301</b>	<b>(2,229,585)</b>
<b>Disbursements:</b>									
Public safety	460,315		-		460,315		212,875	837,871	377,556
Public works	414,783		-		414,783		428,140	428,140	13,357
Health and social services	1,465		-		1,465		1,465	1,465	-
Culture and recreation	342,591		-		342,591		279,622	286,422	(56,169)
Community and economic development	545,956		-		545,956		110,222	740,222	194,266
General government	155,868		-		155,868		136,315	143,315	(12,553)
Debt service	1,154,863		-		1,154,863		226,496	226,496	(928,367)
Capital projects	939,185		-		939,185		4,774,356	4,149,360	3,210,175
Business type activities	-		2,474,642		2,474,642		1,026,437	1,026,437	(1,448,205)
<b>Total disbursements</b>	<b>4,015,026</b>		<b>2,474,642</b>		<b>6,489,668</b>		<b>7,195,928</b>	<b>7,839,728</b>	<b>1,350,060</b>
Deficiency of receipts under									
Other financing sources, net	(1,602,507)		(1,188,445)		(2,790,952)		(1,274,427)	(1,911,427)	(879,525)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	1,460,006		971,186		2,431,192		1,275,000	1,912,000	519,192
Balance beginning of year	(142,501)		(217,259)		(359,760)		573	573	(360,333)
Balance end of year	383,440		418,368		801,808		824,586	824,586	(22,778)
	240,939		201,109		442,048		825,159	825,159	(383,111)

See accompanying independent auditor's report and notes to required supplementary information-budgetary information.

## CITY OF ELKADER

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, general government, debt service and business type activities functions.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF ELKADER  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 As of and for the Year Ended June 30, 2011

	Special Revenue			
	Road Use Tax	Employee Benefits	Library Trust	Total
Receipts:				
Property tax	\$ -	156,499	-	156,499
Use of money and property	-	-	447	447
Intergovernmental	136,002	-	-	136,002
Miscellaneous	-	12,055	2,451	14,506
Total receipts	136,002	168,554	2,898	307,454
Disbursements:				
Operating:				
Public safety	-	36,735	-	36,735
Public works	137,194	83,328	-	220,522
Culture and recreation	-	29,047	33,772	62,819
General government	-	37,713	-	37,713
Total disbursements	137,194	186,823	33,772	357,789
Deficiency of receipts under disbursements	(1,192)	(18,269)	(30,874)	(50,335)
Other financing sources:				
Operating transfers in	-	14,400	-	14,400
Net change in cash balances	(1,192)	(3,869)	(30,874)	(35,935)
Cash balances beginning of year	(5,919)	19,586	36,856	50,523
Cash balances end of year	\$ (7,111)	15,717	5,982	14,588
Cash Basis Fund Balances				
Restricted for:				
Library	\$ -	-	5,982	5,982
Other purposes	-	15,717	-	15,717
Unassigned	(7,111)	-	-	(7,111)
	\$ (7,111)	15,717	5,982	14,588

See accompanying independent auditor's report.

CITY OF ELKADER  
SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2011

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
<b>General obligation bonds:</b>								
2004 TIF refunding	Nov 1, 2004	3.45-4.40%	\$ 1,110,000	860,000	-	860,000	-	34,103
2004 Water revenue refunding	Nov 1, 2004	3.45-3.65	170,000	50,000	-	25,000	25,000	1,775
Sewer construction	Aug 1, 2006	4.30-4.95	620,000	525,000	-	35,000	490,000	24,283
2010 TIF corporate purpose and refunding	Nov 1, 2010	0.75-3.00	1,325,000	-	1,325,000	130,000	1,195,000	13,011
<b>Total</b>				<b>\$ 1,435,000</b>	<b>1,325,000</b>	<b>1,050,000</b>	<b>1,710,000</b>	<b>73,172</b>
<b>General obligation notes:</b>								
Equipment acquisition	Aug 11, 2009	4.75%	\$ 100,670	80,536	-	20,134	60,402	3,825
Police car acquisition	May 3, 2010	4.50%	20,542	20,542	-	6,874	13,668	924
<b>Total</b>				<b>\$ 101,078</b>	<b>-</b>	<b>27,008</b>	<b>74,070</b>	<b>4,749</b>
<b>Loan payable:</b>								
Clayton County Secondary Roads	May 28, 2008	0%	\$ 93,366	65,356	-	9,337	56,019	-
<b>Revenue notes:</b>								
Water	Mar 8, 2005	3.00%	\$ 1,935,000	1,542,000	-	83,000	1,459,000	46,260
Sewer	Nov 2, 2006	3.00	1,150,000	1,021,000	-	47,000	974,000	30,630
Wastewater treatment plant	Dec 3, 2008	3.00	5,500,000	3,644,241	1,011,474	199,000	4,456,715	77,291
<b>Total</b>				<b>6,207,241</b>	<b>1,011,474</b>	<b>329,000</b>	<b>6,889,715</b>	<b>154,181</b>
<b>Anticipation loans:</b>								
Hazard mitigation buy out	Various	3.25%	N/A	\$ 100,032	129,511	212,629	16,914	2,155
Iowa Finance Authority: Lift station replacement	Sep 25, 2009	0	\$ 83,815	83,815	-	-	83,815	-
Water system survey	Nov 15, 2009	0	89,184	89,184	-	-	89,184	-
EMS Building	Various	3.25%	N/A	-	171,065	-	171,065	-
<b>Total</b>				<b>\$ 273,031</b>	<b>300,576</b>	<b>212,629</b>	<b>360,978</b>	<b>2,155</b>

See accompanying independent auditor's report.

Schedule 3

CITY OF ELKADER  
BOND AND NOTE MATURITIES  
June 30, 2011

General Obligation Bonds

Year Ending June 30,	Water Revenue Refunding		Sewer Construction		2010 Urban Renewal Corporate Purpose and Refunding		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	3.65%	\$ 25,000	4.30%	\$ 35,000	1.00%	\$ 160,000	220,000
2013	-	-	4.35	35,000	1.20	165,000	200,000
2014	-	-	4.40	40,000	1.40	165,000	205,000
2015	-	-	4.45	40,000	1.60	165,000	205,000
2016	-	-	4.50	40,000	1.85	170,000	210,000
2017	-	-	4.60	45,000	2.15	170,000	215,000
2018	-	-	4.70	45,000	3.00	40,000	85,000
2019	-	-	4.80	50,000	3.00	40,000	90,000
2020	-	-	4.85	50,000	3.00	40,000	90,000
2021	-	-	4.90	55,000	3.00	40,000	95,000
2022	-	-	4.95	55,000	3.00	40,000	95,000
Total		\$ 25,000		\$ 490,000		\$ 1,195,000	1,710,000

General Obligation

Loan payable

Clayton County  
Secondary Roads

Year Ending June 30,	Issued May 28, 2008		Equipment Acquisition		Police Car Acquisition		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	0%	\$ -	4.75%	\$ 20,134	4.50%	\$ 6,820	26,954
2013	0	9,337	4.75	20,134	4.50	6,848	26,982
2014	0	9,336	4.75	20,134	-	-	20,134
2015	0	9,337	-	-	-	-	-
2016	0	9,336	-	-	-	-	-
2017	0	9,337	-	-	-	-	-
2018	0	9,337	-	-	-	-	-
Total		\$ 56,020		\$ 60,402		\$ 13,668	74,090

(continued)

Schedule 3  
(continued)

CITY OF ELKADER  
BOND AND NOTE MATURITIES  
June 30, 2011

Year Ending June 30,	Revenue Notes			Total
	Water		Sewer	
	Issued Mar 8, 2005	Issued Nov 2, 2006		
	Interest Rates	Amount	Interest Rates	Amount
2012	3.00%	\$ 85,000	3.00%	\$ 48,000
2013	3.00	88,000	3.00	50,000
2014	3.00	91,000	3.00	51,000
2015	3.00	93,000	3.00	53,000
2016	3.00	96,000	3.00	54,000
2017	3.00	99,000	3.00	56,000
2018	3.00	102,000	3.00	58,000
2019	3.00	105,000	3.00	60,000
2020	3.00	108,000	3.00	61,000
2021	3.00	112,000	3.00	63,000
2022	3.00	115,000	3.00	65,000
2023	3.00	118,000	3.00	67,000
2024	3.00	122,000	3.00	69,000
2025	3.00	125,000	3.00	71,000
2026		-	3.00	73,000
2027		-	3.00	75,000
Total		<u>\$ 1,459,000</u>		<u>\$ 974,000</u>
				<u>\$ 2,433,000</u>

See accompanying independent auditor's report.

CITY OF ELKADER  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 For the Last Three Years

	2011	2010	2009
Receipts:			
Property tax	\$ 593,456	558,183	507,116
Tax increment financing	138,179	186,417	170,619
Other city tax	145,702	134,328	142,350
Licenses and permits	4,965	5,501	6,202
Use of money and property	14,025	19,447	14,122
Intergovernmental	1,083,315	1,695,913	1,048,706
Charges for service	290,213	292,788	232,435
Special assessments	-	460	2,158
Miscellaneous	142,664	233,422	186,140
Total	<u>\$ 2,412,519</u>	<u>3,126,459</u>	<u>2,309,848</u>
Disbursements:			
Operating:			
Public safety	\$ 460,315	995,992	1,208,410
Public works	414,783	564,285	373,278
Health and social services	1,465	2,930	-
Culture and recreation	342,591	330,154	320,933
Community and economic development	545,956	128,497	157,276
General government	155,868	153,448	154,674
Debt service	1,154,863	228,158	182,907
Capital projects	939,185	1,110,560	87,640
Total	<u>\$ 4,015,026</u>	<u>3,514,024</u>	<u>2,485,118</u>

See accompanying independent auditor's report.

CITY OF ELKADER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditure
Direct:			
U.S. Department of Agriculture:			
Water and Waste Disposal			
Systems for Rural Communities	10.760	N/A	244,865
Community Facilities Loans			
and Grants	10.766	N/A	180,000
Indirect:			
U.S. Department of Housing and			
Urban Development:			
Iowa Department of Economic			
Development:			
Community Development Block			
Grants/State's Program and			
Non-Entitlement Grants in			
Hawaii	14.228	08-WS-024	45,520
		08-DRMH-220	15,894
		08-DRI-055	390,792
			452,206
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for			
Clean Water State			
Revolving Funds	66.458	SRF-C0100R	314,492
U.S. Department of Homeland			
Security:			
Iowa Department of Public			
Defense:			
Iowa Homeland Security and			
Emergency Management Division:			
Disaster Grants-Public			
Assistance (Presidentially			
Declared Disasters)	97.036	FEMA-1763-DRIA	128,543
Hazard Mitigation			
Grant (HMGP)	97.039	HMGP-DR-1763-0022-01	47,682
Total			\$ 1,367,788

Basis of Presentation-The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Elkader and is presented in conformity with an other basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Elkader, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 28, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Elkader's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Elkader's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elkader's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkader's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Elkader's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Elkader's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Elkader and other parties to whom the City of Elkader may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elkader during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

March 28, 2012



Dietz, Donald & Company, CPAs

FEIN 42-1172392

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDNACE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Elkader, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Elkader's major federal programs for the year ended June 30, 2011. The City of Elkader's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Elkader's management. Our responsibility is to express an opinion on the City of Elkader's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Elkader's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Elkader's compliance with those requirements.

In our opinion, the City of Elkader complied, in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

The management of the City of Elkader is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Elkader's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the City of Elkader's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elkader's internal control over compliance,

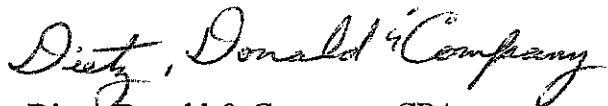
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Elkader and other parties to whom the City of Elkader may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

March 28, 2012

  
Dietz, Donald & Company, CPAs  
FEIN 42-1172392

CITY OF ELKADER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (1) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursement, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (2) No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any noncompliance which is material to the financial statements.
- (4) No significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (5) An unqualified opinion was issued on compliance with requirements applicable to major programs.
- (6) The audit disclosed no findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (7) The major programs were CFDA Number 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii and CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- (8) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- (9) The City of Elkader did not qualify as a low-risk auditee.

CITY OF ELKADER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

No material weaknesses were identified.

CITY OF ELKADER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 **Certified Budget** - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the culture and recreation, general government, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

**Recommendation** - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Response** - The budget will be amended in the future, if applicable.

**Conclusion** - Response accepted.

IV-B-11 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-11 **Travel Expenses** - No disbursements of City money for travel expenses of spouses of City officials were noted.

IV-D-11 **Business Transactions** - No business transactions between the City and City officials or employees were noted.

IV-E-11 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-11 **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-11 **Revenue Notes** - Debt service requirements for the water revenue notes in fiscal 2011 were \$ 134,003, while the Enterprise Water Fund net operating

receipts were only \$ 128,522. Debt service requirements for the sewer revenue notes were \$ 370,223 in fiscal 2011, while the Enterprise Sewer Fund net operating receipts were only \$ 226,805. It appears the debt service requirements exceeding net operating receipts in the enterprise activity would violate the revenue note covenants.

**Recommendation** - The City should investigate ways to increase net operating receipts in both the Water and Sewer enterprise activities.

**Response** - The City has increased both water and sewer rates.

**Conclusion** - Response accepted.

IV-J-11 **Financial Condition** - The Special Revenue, Urban Renewal Tax Increment; the Special Revenue, Hazard Mitigation Grants; the Special Revenue, Road Use Tax; and the Capital Projects Funds had deficit balances of \$ 18,514, \$ 24,310, \$ 7,111 and \$ 110,702, respectively, at June 30, 2011.

**Recommendation** - The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

**Response** - The deficits in the Special Revenue, Hazard Mitigation Grants and Capital Projects Funds were due to construction costs incurred prior to receipt of federal grants. The deficit in the Special Revenue, Urban Renewal Tax Increment Fund was due to transfers to the Debt Service Fund occurring before the receipt of tax revenue. The deficit in the Special Revenue, Road Use Tax was due to disbursements from the fund occurring before the state allocation. These deficits were subsequently eliminated.

**Conclusion** - Response accepted.

IV-J-11 **Library and Cemetery** - The City accounts for the transactions of the Library and Cemetery in the City's General Fund. However, the Library and Cemetery have separate savings accounts and time certificates of deposit that have not been accounted for or reported by the City in the City's financial statements and reports. We have, however, included these accounts in these financial statements.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose, by a City officer, employee or other person, and which show the receipt, use, and disposition of all City property."

**Recommendation** - The City's Library and Cemetery should determine the status of the separate accounts for accountability and reporting purposes. If the Library and Cemetery wish to maintain custody and control over the separate accounts, they should be established as legally separate entities from the City, with Articles of Incorporation and by-laws. Otherwise the City should include these accounts in its records, in accordance with Chapter 384.20 of the Code of Iowa. Legal counsel should be consulted for assistance as necessary, to resolve the issue.

**Response** - We will include the Library Trust and Cemetery transactions in our Annual Financial Report in the future.

**Conclusion** - Response accepted.